

MR. HELLMANN: Thank you. It's a pleasure to be here. I apologize, first of all, for not having submitted a written document. I've actually been working on it intensely for the last three days because, in preparation for this, I made the mistake of downloading your previous hearings and was so incensed by what I found there that I decided to sit down and try to write a rebuttal. I have not succeeded in doing that in the time limit, but I will try to capture in the moments here the essence of what I'm trying to say.

COMMISSIONER RUMSFELD: You are lumping all of our previous hearings into one basket and making that charge?

MR. HELLMANN: No. The one that was particularly upsetting was the one in the font of all wisdom, Washington, D.C., where you had a parade of many of my friends who are economists explaining the causes of the trade deficit and how it might be remedied, and it sounded like Economics 201, and it did not really allude to what I take the purpose of this Commission, namely to get out and address concretely how to deal with the trade deficit.

COMMISSIONER RUMSFELD: The reason I intervened is because we've heard things all across the spectrum. This Commission is --

COMMISSIONER LEWIS: Don, your turn will come. Your turn will come.

MR. HELLMANN: It was the approach. My argument is very simple. I have taken what I call an institutional approach as opposed to the orthodox economic approach to this. In doing so I want to make clear that this does not demean free trade. I'm enthusiastically in favor of it. What is at issue is how the political economies of East Asia work. How this affects the trade deficit. And what the United States can do both internationally and domestically to minimize the costs of bringing Asia into the free trade oriented global system.

And curiously, the best place to understand the trade deficit problem is the current financial crisis, or the financial crisis that is finally dissipating in Asia. This crisis provoked the first truly serious debate about the political economic strategy of the United States in the world. The President used the phrase, "It was the biggest crisis since the end of World War II, economic crisis, and required the creation of new financial architecture and various attendant policies."

My position, first of all, is that Asia operates by different rules. They have a societally rooted pattern of doing business that was augmented by

industrial policy in the peculiar bureaucratic constructs that evolved during the Cold War era. This is not going to change in the short run. Admitting China to the World Trade Organization moves you to phase two, and the problems really just begin.

Secondly, the age of nationalism in Asia, the political age of nationalism, has just begun. It's not ending. It occurs at a time when globalization and the technological revolution led by the Internet is rescrambling the way nations deal with each other, but it would be a huge mistake to think that nationalism, protectionism and a clearly defined sense of self-interest will not be on the front burner of all Asian nations.

And finally, the trade deficit can only be understood by addressing it as embedded into these broader economic issues. Indeed, the spurt in the recent deficit which led to the creation of this Commission was the direct result of the Asian financial crisis and policies, calculated policies, that were implemented to avoid a financial catastrophe in the Asian region. So in one sense your mission is somewhat misguided in the sense that it is not broad enough to address what I consider to be the essential and causal features of what is going forward.

I feel that most of the analysis -- and this is why I made the more sweeping generalization about when I opened my comments, most of the analysis simply asks the wrong questions about the causes of how we got where we are and why we have a trade deficit. I want to remind you that the GATT and the WTO, the trade regulating entities that exist, were devised -- the GATT clearly -- devised to regulate European and American economies that are rule-based, markets are rigged by tariffs and overt legal obstacles.

As I mentioned in the break, Japan was in greater compliance with the GATT than we were in 1972, yet they themselves had six market opening campaigns in the 1980s. Why? Because non-tariff barriers became involved. Similarly, in Korea, when the IMF went in and urged that the Korean labor force be made more responsive to the market, the fact is the Korean labor force, particularly those in the large corporations, are overwhelmingly housed in buildings owned by the corporations themselves. Were they to downsize in the ways recommended -- an absurd request, I might add -- you would have the streets filled with homeless, or you would have had to have a major revamping of the housing. Obviously this is an unrealistic approach.

What I am suggesting, then, is that in dealing with the trade deficit that you embed your

analysis and your suggestions in the broader challenge posed by Asia to the United States and to the world.

Basically, it is a problem of leadership. I feel that the way to deal with the domestic impact of trade deficits should be handled by the governments in Washington. Not through an industrial policy but a kind of a FEMA emergency act to address the specific issues that may arise as, for example, the textile industries in the Carolinas are going to be clobbered in 2005 if the current agreement with China is implemented.

COMMISSIONER LEWIS: Time is up, but you can have another minute or two because of the diversion before.

MR. HELLMANN: Okay. Fine. And that's all I need.

Finally, secondly, I feel the real problem with the trade deficit that government can deal with is in sectoral dislocation. I mean, each business sector will have its own story. I think the mistake in the past in approaching how to address these issues has assumed a pro-active role by government that would go well beyond kind of an emergency FEMA type arrangement.

However, it is absurd to suggest that the dislocations that would be caused by the genuine opening of the textile markets by 2005 will not severely impact the

workers in the Carolinas, for example, some sort of gesture by government seems both necessary and feasible without tip-toeing over the line into regulatory or industrial policy areas, where the debate has gone.

And finally, and most importantly, I think, from my point of view is the relationship between business and government has to be adjusted, internationally as well as domestically. In many ways, quite frankly, The Boeing Company's foreign policy is more interesting than that of the State Department. It's more subtle, it's more sophisticated. It doesn't make me sleep better at night, because they have a very clear and narrow definition of self-interest. But if the market really does rule, as many people seem to believe at an increasing level internationally, then quite clearly, both international organizations as well as the relationship between government and business needs to be looked at one more time.

Let me stop at that point.